

Exhibit 32 to Plaintiff's
Memorandum of Points and Authorities
in Support of Its Motion for Temporary
Restraining Order and Preliminary
Injunction
(PX01302)
Part 1 of 3

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED SEPTEMBER 24, 2006

COMMISSION FILE NUMBER: 0-19797

WHOLE FOODS MARKET, INC.

(Exact name of registrant as specified in its charter)

Texas
(State of
incorporation)

74-1989366
(IRS Employer
Identification No.)

**550 Bowie St.
Austin, Texas 78703**
(Address of principal executive offices)

512-477-4455
Registrant's telephone number, including area code:

**Securities registered pursuant to section 12(g) of the Act:
Common Stock, no par value**

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of all common stock held by non-affiliates of the registrant as of April 9, 2006 was \$9,358,291,338. The number of shares of the registrant's common stock, no par value, outstanding as of November 19, 2006 was 142,932,268.

DOCUMENTS INCORPORATED BY REFERENCE

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Whole Foods Market, Inc.
Annual Report on Form 10-K
For the Fiscal Year Ended September 24, 2006

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This Report on Form 10-K contains forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934 concerning our current expectations, assumptions, estimates and projections about the future. These forward-looking statements are based on currently available operating, financial and competitive information and are subject to risks and uncertainties that could cause our actual results to differ materially from those indicated in the forward-looking statements. See “Item 1A. Risk Factors” for a discussion of risks and uncertainties that may affect our business.

PART I

Item 1. Business.

General

Whole Foods Market, Inc. is the largest food retailer of natural and organic products. Our Company mission is to promote the vitality and well-being of all individuals by supplying the highest quality, most wholesome foods available. Since the purity of our food and the health of our bodies are directly related to the purity and health of our environment, our core mission is devoted to the promotion of organically grown foods, food safety concern, and the sustainability of our entire ecosystem. Through our growth, we have had a large and positive impact on the natural and organic foods movement throughout the United States, helping lead the industry to nationwide acceptance over the last 26 years.

Whole Foods Market, Inc. is a Texas corporation incorporated in 1980. The Company is based in Austin, Texas and conducts business through various wholly-owned subsidiaries. Unless otherwise specified, references to Whole Foods Market or the Company in this Report include its consolidated subsidiaries. We operate in one reportable segment, natural and organic foods supermarkets.

We opened our first store in Austin, Texas in 1980 and completed our initial public offering in January 1992. As of September 24, 2006, we operated 186 stores organized into 11 geographic operating regions, each with its own leadership team: 177 stores in 31 U.S. states and the District of Columbia; three stores in Canada; and six stores in the United Kingdom. Our sales have grown rapidly through new store openings, acquisitions and comparable store sales growth, from approximately \$92 million in fiscal year 1991, excluding the effect of pooling-of-interests transactions completed since 1991, to approximately \$5.6 billion in fiscal year 2006, a compounded annual growth rate of approximately 31%. We are a Fortune 500 company, ranking number 449 based on our fiscal year 2005 sales of approximately \$4.7 billion. Our stores average approximately 34,000 square feet in size and approximately \$31 million in annual sales. Our stores are supported by regional distribution centers, bakehouse facilities, commissary kitchens, seafood-processing facilities, produce procurement centers, a national meat purchasing office and a specialty coffee procurement and roasting operation.

We aspire to become an international brand synonymous with not just natural and organic foods, but also with being the best food retailer in every community in which we are located. We believe our heavy emphasis on perishable products is helping us reach that goal, differentiating our stores from conventional supermarkets and enabling us to attract a broader customer base. Perishable product sales accounted for approximately 67% of our total retail sales in fiscal year 2006. We believe that all shoppers, not just natural and organic food shoppers, appreciate great produce, dairy, meat, seafood, bakery and prepared foods, and it is our strength of execution in perishables along with our unparalleled customer service that has attracted many of our most loyal customers.

The Natural Products Industry

According to a leading trade publication for the industry, sales of natural products across all retail and direct-to-consumer channels grew to \$51 billion in 2005, a 9% increase over the prior year. The natural and organic products we offer in our stores include food and beverages, dietary supplements, personal care products, household goods, organic cotton clothing, and related educational products. We believe the growth in sales of natural and organic foods is being driven by numerous factors, including:

- heightened awareness of the role that food and nutrition play in long-term health, which has led to healthier eating patterns;
- a better-educated and wealthier populace whose median age is increasing each year;
- increasing consumer concern over the purity and safety of food due to the presence of pesticide residues, growth hormones, artificial ingredients and other chemicals, and genetically engineered ingredients; and
- environmental concerns due to the degradation of water and soil quality.

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Natural foods can be defined as foods that are minimally processed, largely or completely free of artificial ingredients, preservatives and other non-naturally occurring chemicals and as near to their whole, natural state as possible. Organic products are grown through methods intended to support and enhance the earth's natural balance. Generally, organic food products are produced using:

- ~~agricultural management practices intended to promote and enhance eco-system health;~~
- no genetically-engineered seeds or crops, sewage sludge, long-lasting pesticides, herbicides or fungicides;
- livestock management practices intended to promote healthy, humanely treated animals by providing organically-grown feed, fresh air and outdoor access while using no antibiotics or growth hormones; and
- food processing practices intended to protect the integrity of the organic product and disallow irradiation, genetically modified organisms ("GMOs") or synthetic preservatives.

Organic Rule

In October 2002, the United States Department of Agriculture's ("USDA") Organic Rule was implemented into Federal law. The Organic Rule was created to address the rapid, consistent growth of the organics industry over the past 20-plus years and the need for a set of national organic standards to serve as clear guidelines as to what is considered organic for the industry and its customers. Under the Organic Rule, all products labeled as "organic" in any form must be certified by a USDA-accredited certifying agency. Furthermore, all retailers, including Whole Foods Market, that handle, store, and sell organic products must implement measures to protect their organic integrity by:

- preventing the commingling of organic and conventional products;
- protecting organic products from contact with prohibited substances (such as sanitation and pest control products);
- labeling organic products properly and clearly; and
- keeping proper records with regard to organic handling procedures and vendor relationships.

Whole Foods Market played an active leadership role in the development of the national organic standards. Margaret Wittenberg, our Vice President of Global Communications and Quality Standards, served on the National Organic Standards Board ("NOSB") from 1995 to 2000. The NOSB members were appointed by the Secretary of Agriculture to act as industry advisors to the USDA's National Organic Program, developing the standards and protocols that form the backbone of the USDA's Organic Rule. As the sole retail representative on the NOSB, Ms. Wittenberg contributed a broad, realistic perspective on how the standards could work most effectively at the retail level.

Whole Foods Market has been devoted to protecting organic integrity for years, and we are pleased to have the USDA's Organic Rule as a guiding standard. In May 2003, Whole Foods Market became America's first national "Certified Organic" grocer through certification from Quality Assurance International ("QAI"), a federally recognized independent third-party certification organization. This voluntary certification tells our customers that we have gone the extra mile by not only following the USDA's Organic Rule, but following a strict set of operating procedures designed to ensure that the products we sell and label as organic are indeed organic – procedures that are not specifically required by the Organic Rule.

QAI's Organic Certification Program for Retailers verifies businesses handle organic goods according to stringent national guidelines, from receipt through re-packing to final sale to customers. To receive certification, retailers must agree to adhere to a strict set of standards set forth by the USDA, submit documentation, and open their facilities to on-site inspections – all designed to assure Americans that the chain of organic integrity is preserved. The certification is one more example of our commitment to the promotion of organic agriculture and the integrity of the certified organic label.

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Business Strategy

Whole Foods Market is the largest food retailer of natural and organic products. We believe that much of our success to date is because we remain a uniquely mission-driven Company. We are highly selective about what we sell. We believe in providing an empowering work environment for our team members, and we are committed to sustainable agriculture. Our motto, “Whole Foods, Whole People, Whole Planet,” emphasizes that our vision reaches far beyond just food retailing.

Whole Foods

We obtain our products locally and from all over the world, often from small, uniquely dedicated food artisans. We strive to offer the highest quality, least processed, most flavorful and naturally preserved foods. We believe that food in its purest state – unadulterated by artificial additives, sweeteners, colorings and preservatives – is the best tasting and most nutritious food available.

Whole People

We recruit the best people we can to become part of our team. We empower them to make many operational decisions, creating a respectful workplace where team members are treated fairly and are highly motivated to succeed. We look for team members who are passionate about food, but also well-rounded human beings who can play a critical role in helping to build our Company into a profitable and beneficial part of every community in which we operate.

Whole Planet

We believe companies, like individuals, must assume their share of responsibility for our planet. We actively support organic farming on a global basis because we believe it is the best method for promoting sustainable agriculture and protecting the environment and farm workers. On a local basis, we are actively involved in our communities by supporting food banks, sponsoring neighborhood events, and contributing at least 5% of our after-tax profits in the form of cash or products to not-for-profit organizations.

Core Values

Our core values reflect what is truly important to us as an organization. They are the underpinning of our corporate culture and the soul of our Company. They transcend our size and growth rate, so regardless of how large we become, by maintaining our core values we are able to preserve what has always been special about our Company. Our five stated core values include:

- selling the highest quality natural and organic products available;
- satisfying and delighting our customers;
- supporting team member happiness and excellence;
- creating wealth through profits and growth; and
- caring about our communities and our environment.

These core values speak to our belief in a balanced way of doing business. They very succinctly express the purpose of our business, which is not only to make profits, but to create value for all of our major stakeholders – our customers, team members, suppliers, investors, and the community and environment. All are linked interdependently. In 2006, Business Ethics magazine ranked us number 47 on its “100 Best Corporate Citizens List for 2006,” a list honoring companies that excel at serving a variety of stakeholders well.

Foundations

In 2005, we created two independent, non-profit organizations, the Animal Compassion Foundation™ and Whole Planet Foundation™, designed to reach the larger community stakeholder. The two private foundations were initially funded with seed money totaling over \$1 million raised from two global “Five Percent Days,” in which five percent of the amount of all customer purchases at our stores were donated to the foundations. Both foundations, which are based in Austin, Texas and have their own boards of directors, are aligned with the mission we set forth more than 25 years ago with respect to community involvement and responsibility. As we have grown and are doing more business around the world, we believe it has become increasingly important for us to extend our vision of “community” from our backyards to the global markets in which we are trading.

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The Animal Compassion Foundation was established as a natural progression of our efforts to help producers evolve their practices for raising farm animals naturally and humanely. The foundation's mission is to provide education and research services to assist and inspire ranchers and meat producers from around the world to adopt more humane practices and achieve a higher standard of animal welfare excellence while still maintaining economic viability. The foundation is focusing on four primary areas:

- searching the globe for ideas and innovations from ranchers and farmers who are raising their animals compassionately;
- creating a worldwide network of animal compassionate producers to share knowledge and improve practices;
- collecting knowledge of compassionate animal husbandry methods in an online library to assist interested producers in successfully adopting these ideas; and
- providing research money to producers for on-farm research and to animal scientists to seek solutions to current husbandry issues.

The mission of the Whole Planet Foundation is to create economic partnerships with the poor in developing-world communities that supply our stores with products through innovative assistance for entrepreneurship, including the funding of community partnership projects and the funding of micro-credit loans through partnerships with micro-financing institutions. Micro-credit is a system designed by Professor Muhammad Yunus, founder of the Grameen Bank in Bangladesh and recipient of the 2006 Nobel Peace Prize. Its sole purpose is to give the poor access to credit without requiring contracts or collateral, enabling them to rise out of poverty through their own efforts. The Whole Planet Foundation believes the Grameen micro-credit program is the best system available for combating poverty in developing countries and is partnering with Grameen in all existing and future projects. To date, the foundation has provided funding for more than \$375,000 in loans to over 2,200 women in the Limon Province of Costa Rica where Whole Foods Market buys pineapples and bananas, and in the Lake Atitlan Region of Guatemala, a central highland region renowned for its coffee production. Borrowers are utilizing the loans for home-based businesses such as poultry and pig farming, agriculture, furniture making, tailoring, and selling handicrafts, homemade and bakery-made foods, clothing and footwear. The foundation plans to expand to Assam, India, where Whole Foods Market buys tea, and other Latin American, African and Asian countries in the near future.

Products

We offer a broad and differentiated product selection with a strong emphasis on perishable foods designed to appeal to both natural foods and gourmet shoppers. Most of our products are from natural food vendors; however, we do sell certain conventional national brands that meet our quality standards.

Quality Standards

A primary part of our Company mission is to promote the vitality and well-being of all individuals by supplying the highest quality, most wholesome foods available. We evaluate quality in terms of nutrition, freshness, appearance and taste. Our search for quality is a never-ending process involving the careful judgment of buyers throughout the Company.

- We carefully evaluate each and every product that we sell.
- We feature foods that are free of artificial preservatives, colors, flavors, sweeteners and hydrogenated fats.
- We are passionate about great tasting food and the pleasure of sharing it with others.
- We are committed to foods that are fresh, wholesome and safe to eat.
- We seek out and promote organically grown foods.
- We provide food and nutritional products that support health and well-being.

We monitor the production and environmental practices of our seafood suppliers and support the seafood sustainability work of the Marine Stewardship Council. From time to time, we have stopped selling seafood species that are considered endangered by a consensus of seafood experts. In addition, Whole Foods Market has encouraged innovative animal

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production practices to improve the quality and safety of the meat and poultry sold in our stores, while also supporting humane living conditions for the animals. For this reason, we refuse to sell commercial veal from tethered calves, foie gras from force-fed ducks and live lobsters.

We strictly monitor how the animals are raised and what they are fed. Our standards ensure that the meat and poultry we sell are:

- raised without added growth hormones or antibiotics;
- never fed animal by-products;
- raised by farmers and ranchers who care about the animals and the environment in which they live; and
- monitored from the farm to our stores to ensure compliance with our strict animal welfare and food safety quality standards.

Animal Compassionate Standards

Whole Foods Market is strongly committed to helping create alternatives to the “factory farm” methods of raising livestock. In October 2003, we began working species-by-species on farm animal treatment standards that go above and beyond our existing strict standards. The new standards of production and processing have been developed through a consultative multi-stakeholder process in cooperation with producers, animal welfare advocacy groups, animal welfare scientists, and an independent standards auditor. We believe the needs of an animal should be the first criteria in the development of standards, with a focus on providing environments and conditions for each species that support the animal’s natural physical, emotional and behavioral well-being. Producers who successfully meet our voluntary standards will be able to label their products with a special designation. Our new “Animal Compassionate” standards started in November 2003 with the development of enhanced animal welfare standards for ducks. In fiscal year 2005, we completed work on enhanced standards for pigs, sheep and cattle. In fiscal year 2006, we added standards for broiler chickens and hired our first animal compassion field buyer to work exclusively on developing sources of animal products that meet our new strict standards. “Animal Compassionate” standards for other meat species, laying hens and dairy animals are currently under development.

Product Categories

Our product categories include, but are not limited to: produce, seafood, grocery, meat and poultry, bakery, prepared foods and catering, specialty (beer, wine and cheese), Whole Body (nutritional supplements, vitamins, body care and educational products such as books), floral, pet products and household products.

Perishable products accounted for approximately 67% of our total retail sales in fiscal year 2006, up from approximately 57% of our total retail sales 11 years ago. We believe our heavy emphasis on perishable products differentiates us from conventional supermarkets and helps us attract a broader customer base. We believe that all shoppers, not just natural and organic food shoppers, appreciate great produce, dairy, meat, seafood, bakery and prepared foods. We believe it is our strength of execution in perishables that has attracted many of our most loyal shoppers.

Locally Grown

Our history and reputation are intimately linked to our support of local farmers. For more than 25 years, we have provided our customers with the broadest possible selection of the highest quality produce available. Our search for produce begins right outside our front door in every community where we do business. We are permanently committed to buying from local producers whose fruits and vegetables meet our high quality standards, particularly those who farm organically and are themselves dedicated to environmentally friendly, sustainable agriculture. We are greatly increasing our efforts in this regard by further empowering our individual store and regional buyers to seek out locally grown products.

Whole Foods Market currently purchases produce from over 2,400 different farms through various suppliers. Of the Company’s top 10 produce suppliers, seven represent independent farms with privately held ownership. We believe we can and should do more to support local farmers. To that end, we have established a budget of up to \$10 million annually to promote local agriculture, especially animal agriculture, wherever we have stores through long-term loans at low interest rates. In addition, in certain areas, we are now providing space in our parking lots weekly for local farmers to sell their products directly to our customers, working in concert with existing farmers’ markets when possible. Our stores have excellent locations and heavy customer traffic to help these farmers’ markets flourish, and their presence at our stores provides more local choices for our customers.

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Private Label

Because of the relative lack of nationally-recognized brands in the natural products marketplace, we believe we have a unique private label opportunity. We have taken advantage of this opportunity and over the last several years have significantly expanded our private label resources and offerings, which currently feature about 1,800 SKUs and comprise three corporate brands – 365 Everyday Value, 365 Organic and the Whole Brands family. In addition to these nationally-driven programs, we have a number of store-made and regionally-made fresh items sold under the Whole Foods Market label. We also offer specialty and organic coffees and teas through our Allegro Coffee Company subsidiary. Our private label sales in grocery and nutrition accounted for approximately 16% of our total sales in those product categories in fiscal year 2006, up from 15% of our total sales in fiscal year 2005. Total private label sales across all teams accounted for approximately 8% of our retail sales in fiscal year 2006, up from 7% of our retail sales in fiscal year 2005, reflecting the roll-out of more than 350 new items in fiscal year 2006. We believe our private label sales could grow to a much higher percentage of our sales over time, as we continue to focus on the rapid development and growth of our product lines.

- **365 Everyday Value.** In 1997, we introduced a line of products under the “365” label emphasizing everyday value. These products meet our quality standards but are generally less expensive than the alternative products we sell. Our qualitative and quantitative research indicates that the “365” line is a highly recognized and trusted brand with Whole Foods Market shoppers.
- **365 Organic Everyday Value.** In 2002, we expanded our private label program with the introduction of our “365 Organic” line. The “365 Organic” brand provides all of the benefits of organic food at reduced prices. In 2003, we expanded this program into non-grocery departments, including a successful line of organic fresh vegetables, and in 2006, we began the process of re-branding our Whole Kids Organic line, first introduced in 1998, under the “365 Organic” label with some new kid-friendly designs.
- **Whole Brands.** In 2004, we introduced a new family of “Whole Brands,” each aligned with department-specific quality and sourcing standards. Included under the “Whole Brands” umbrella are “Whole Kitchen” for pre-packaged fresh and frozen grocery, “Whole Treat” for frozen desserts, cookies and candies, “Whole Catch” for pre-packaged fresh and frozen seafood items, “Whole Fields” for produce and produce support items, “Whole Pantry” for items such as herbs, spices and condiments, “Whole Creamery” for cheeses, “Whole Ranch” for pre-packaged fresh and frozen meat, and “Whole Paws” for tasty and healthful pet food. These brands go beyond the basics, offering unique items, including innovative formulations, that embody our high quality standards and supplement our base value line of “365” and “365 Organic” items. Items within “Whole Brands” share a consistent logo format and packaging so that our customers know each is part of a greater family.

Economic Value Added

We use Economic Value Added (“EVA”™) as a basis for our business decisions and for determining incentive compensation. In its simplest definition, EVA is equivalent to net operating profits after taxes minus a charge for the cost of invested capital necessary to generate those profits. We believe that one of our core strengths is our decentralized culture, where decisions are made at the store level, close to the customer. We believe this is one of our strongest competitive advantages and that EVA is the best financial framework that team members can use to help make decisions that create sustainable shareholder value.

We use EVA extensively for capital investment decisions, including evaluating new store real estate decisions and store remodeling proposals. We only invest in projects that we believe will add long-term value to the Company. The EVA decision-making model also enhances operating decisions in stores. Our emphasis is on EVA improvement, as we want to challenge our teams to continue to innovate and grow EVA in new ways. We believe that opportunities always exist to increase sales and margins, to lower operating expenses and to make investments that add value in ways that benefit all of our stakeholders. We believe that focusing on EVA improvement encourages continuous improvement of our business.

Over 700 leaders throughout the Company are on EVA-based incentive compensation plans, of which the primary measure is EVA improvement. EVA-based plans cover our senior executive leadership, regional leadership and the store leadership team (store team leaders and assistant store team leaders) in all stores. Incentive compensation for each of these groups is determined based on relevant EVA measures at different levels, including the total Company level, the regional level, the store or facility level, and the team level. We believe using EVA in a multi-dimensional approach best measures the results of decisions made at different levels of the Company. We expect EVA to remain a significant component of our compensation structure throughout the Company in the coming years.

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Information about our EVA financial results is not presented because of rules adopted by the Securities and Exchange Commission ("SEC") regarding non-GAAP financial measures. Additional information about our EVA financial results is available on our corporate website at www.wholefoodsmarket.com but is not incorporated by reference into this Form 10-K.

Growth Strategy

Whole Foods Market's growth strategy is to expand primarily through new store openings. We have a disciplined, opportunistic real estate strategy, opening stores in existing trade areas as well as new markets, including international markets. Our new stores typically range in size between 50,000 and 60,000 square feet and are located on premium real estate sites. To a lesser extent, we have also grown through acquisitions, with approximately 21% of our existing square footage coming from acquisitions. Because the natural foods retailing industry is highly fragmented and comprised of many smaller local and regional chains, we may continue to pursue acquisitions of smaller chains that provide access to desirable markets, locations and experienced team members. Such acquisitions, however, are not expected to impact our future store growth or financial results due to the size of the Company's existing store base.

We have an ongoing relocation strategy and actively relocate some of our smaller stores to larger locations with improved visibility and parking each year. For stores relocated in fiscal years 2001 through 2006, the overall average increase in size was approximately 71%. Our historical store growth is summarized below:

	2006	2005	2004	2003	2002
Stores at beginning of fiscal year	175	163	145	135	126
Stores opened	13	15	12	12	11
Acquired stores	1	—	7	—	3
Relocations and closures	(3)	(3)	(1)	(2)	(5)
Stores at end of fiscal year	186	175	163	145	135
Total gross square footage at end of fiscal year (in thousands)	6,377	5,819	5,145	4,545	4,098

As of November 2, 2006, we had signed leases for 88 stores scheduled to open through fiscal year 2010 totaling approximately 5.0 million square feet, or approximately 77% of our existing square footage. These stores, which average approximately 56,000 square feet in size and are roughly 62% larger than the average size of our existing store base, include 18 relocations and 21 new markets. Our historical growth in stores in development is summarized below:

	November 2, 2006	November 9, 2005	November 10, 2004	November 30, 2003	November 29, 2002
Stores in development	88	65	53	35	19
Average size — gross square feet	56,000	55,000	49,000	45,000	41,000
Total gross square footage in development (in thousands)	5,003	3,626	2,594	1,607	855

We currently operate four stores in excess of 65,000 gross square feet and have an additional 17 stores of that size in development, five of which are relocations. We expect these larger format stores to deliver strong returns over time as we believe they appeal to a broader customer base, will take longer to reach maximum capacity, and will create a higher barrier to entry making them less vulnerable to competition.

Tender dates provide some visibility on the timing of our new store openings. For accounting purposes, a lease is considered tendered on the date we take possession of the leased space for construction and other purposes, which is typically when the shell of the store is complete or close to completion. As of November 2, 2006, 13 of our 88 stores in development had been tendered to us. These 13 stores represent approximately 691,000 square feet.

The "tender period" is defined as the length of time between a store's tender date and opening date, and will vary depending on several factors, some of which are outside of our control. These factors include the size of the store and complexity of site development, the impact of weather and unforeseen environmental issues, and issues surrounding construction labor unions and local government authorities, among other things. For stores opened during the past two fiscal years, the average tender period was 8.6 months.

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The following table provides information about the Company's store development activities:

	Stores Opened During Fiscal Year 2006	Leases Tendered as of November 2, 2006	Total Leases Signed as of November 2, 2006
Number of stores (including relocations)	13	13	88
Number of relocations	2	1	18
New markets	4	2	21
Average store size (gross square feet)	50,200	53,200	56,000
As a percentage of existing store average size	147%	154%	162%
Total square footage	653,000	691,000	5,003,000
As a percentage of existing square footage	10%	11%	77%
Average pre-opening expense per store	\$1.9 million		
Average pre-opening rent per store	\$0.7 million		
Average tender period	7.8 months		

Site Selection

Most of our stores are located in high-traffic shopping areas and are either freestanding or in a strip center. We also have a number of urban stores located in high-density, mixed-use projects. In selecting store locations, we use an internally developed model to analyze potential markets based on various criteria such as education levels, population density and income levels within certain drive times. We primarily seek to open large-format stores, which typically range in size between 50,000 to 60,000 square feet and are located on premier real estate sites, often in urban, high-population locales. After we have selected a target site, our development group does a comprehensive site study and sales projection. Each project must meet an internal EVA hurdle return, which is generally cumulative positive EVA within seven years.

The required cash investment for new stores varies depending on the size of the store, geographic location, degree of work performed by the landlord and complexity of site development issues. For stores opened during the past two fiscal years averaging 49,400 square feet in size, our new store investment has averaged approximately \$12.9 million excluding pre-opening and relocation expenses, which have averaged approximately \$1.9 million per store.

Store Operations

Team Approach to Store Operations

We strive to promote a strong Company culture featuring a team approach to store operations that we believe is distinctly more empowering of employees than that of the traditional supermarket. Our domestic stores each employ between 40 and 650 team members who comprise up to 13 teams per store, each led by a team leader. Each team within a store is responsible for a different product category or aspect of store operations such as customer service, prepared foods, or grocery, among others. Just as we have a regionally-focused framework, we also promote a decentralized team approach to store operations in which many decisions are made by teams at the individual store level. In this structure, an effective store team leader is critical to the success of the store. The store team leader works closely with one or more associate store team leaders, as well as with all of the department team leaders, to operate the store as efficiently and profitably as possible. Twice yearly, our team members are asked to complete a confidential, third party-administered team leader survey, which provides them with an opportunity to give their leaders constructive feedback.

We believe team members are inspired by work that provides them with a greater sense of purpose and mission. For many team members, their job is an extension of their personal philosophy and lifestyle. Many team members have said they believe they are contributing to the good of others by selling clean and nutritious foods, by contributing to long-term sustainable agriculture and by promoting a pesticide-free and healthier environment.

We strive to create a Company-wide consciousness of "shared fate" by uniting the interests of team members as closely as possible with the interests of our shareholders. One way we reinforce this concept is through a gainsharing program rewarding a team's labor productivity. We also encourage stock ownership among team members through the following programs:

- **Team Member Stock Option Plan.** All full-time and part-time team members are eligible to receive a grant of stock options each year. The annual grant has two components: (i) Annual Leadership Grants to recognize and incentivize team member performance; and (ii) Service Hour Grants to recognize team member service to the Company. In 2006 our Board of Directors awarded approximately 1.4 million options to 11,758 team members. Of these stock options, 94% were granted to non-executives, with 46% awarded as Service Hour Grants alone.

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- **Team Member Stock Purchase Plan.** Through bi-weekly payroll deductions, full-time team members may elect to purchase unrestricted shares of our stock at 100% of market value or restricted shares at 85% of market value on the purchase date. Participants are required to hold restricted shares for two years before selling them. The shares are purchased for the plan participants on a quarterly basis. Approximately 3,700 team members currently participate in this plan.
- **Team Member 401(k) Plan.** Whole Foods Market stock is an investment option within the Company's 401(k) plan.

Store Description

We do not have a standard store design model. Instead, each store's design is customized to fit the size and configuration of the particular location and community in which it is located. Our culture and philosophy is one of continual innovation and experimentation, and successful experiments are voluntarily picked up and improved upon by our stores and regions. We strive to transform food shopping from a chore into a dynamic experience by building and operating stores with colorful décor, well-trained team members, exciting product mixes, teams of in-store chefs, ever-changing selections, samples, open kitchens, scratch bakeries, hand-stacked produce, prepared foods stations and European-style charcuterie departments. To further a sense of community and interaction with customers, our stores typically include sit-down eating areas, customer comment boards and customer service booths. We have "Take Action" centers for our customers who want to be informed on important issues relative to environmental, legislative, food safety and product quality issues that can directly affect our customers' health and well-being. In addition, some stores offer special services such as massage, valet parking and home delivery. We believe our stores play a unique role as a third place, besides the home and office, where people can gather, interact and learn while at the same time discovering the many joys of eating and sharing food.

Purchasing and Distribution

Our buyers purchase products for retail sale from local, regional and international wholesale suppliers and vendors. The majority of our purchasing occurs at the regional and national levels. This enables us to negotiate better volume discounts with major vendors and distributors, while allowing our regional and store buyers to focus on local products and the unique product mix necessary to keep a neighborhood market feel in our stores. We are increasingly focusing more of our purchasing on producer- and manufacture-direct programs, and we remain committed to buying from local producers that meet our high quality standards.

We own two produce procurement centers which facilitate the procurement and distribution of the majority of the produce we sell. We also operate a national meat purchasing office, three seafood processing and distribution facilities, a specialty coffee procurement and roasting operation, and nine regional distribution centers, which distribute a full range of products to our stores across the U.S., Canada and the United Kingdom. In addition, we have six regional commissaries and 11 bakehouse facilities, all of which distribute products to our stores. Other products are typically procured through a combination of specialty wholesalers and direct distributors.

United Natural Foods is our single largest third-party supplier, accounting for approximately 22% of our total purchases in fiscal year 2006. In November, we extended our long-term relationship with United Natural Foods as our primary supplier of dry grocery and frozen food products. This seven-year agreement will allow us to concentrate our capital and resources on executing on our new store development pipeline, as well as focus our internal distribution efforts around key perishable departments including produce, prepared foods, bakery, seafood and meat.

Marketing

We spend less on advertising and marketing than conventional supermarkets – approximately 0.4% of our total sales in fiscal year 2006, instead relying primarily on word-of-mouth recommendations and testimonials from our shoppers, as well as the publicity and excitement generated by our new store openings. We allocate our marketing budget among region-wide programs, our individual stores' marketing efforts, and a national brand awareness initiative focusing primarily on national in-store marketing programs and national and major market public relations. Our stores spend most of their marketing budgets on in-store marketing-related activities, including signage and in-store events such as taste fairs, classes, tours and product samplings. To create goodwill and develop a high profile within the community, each store also has a separate budget for making contributions to a variety of philanthropic and community activities. We presently contribute at least 5% of our after-tax profits in the form of cash or products to not-for-profit organizations.

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Customer Service

Our most important core value is to satisfy and delight our customers, because without our customers, we would have no business. We genuinely care about the well-being of our customers and empower our team members to do whatever it takes to meet or exceed their expectations on every shopping trip. By doing so, we turn our customers into advocates for our business, who do more than shop with us; they recommend Whole Foods Market to their friends and others. We want to serve our customers competently, efficiently, and knowledgeably. We believe that we generate greater appreciation and loyalty from our customers by educating them about natural and organic foods, health, nutrition and the environment through our in-store "Take Action" centers as well as on our corporate website at www.wholefoodsmarket.com, which features hundreds of recipes and a library of information about environmental, legislative, food safety and product quality issues.

Team Members

As of September 24, 2006, we had approximately 41,500 team members, including approximately 36,200 full-time, 3,200 part-time and 2,000 temporary team members. We are proud that 92% of our permanent team members are full-time team members, which we believe is very high for the food retailing industry and allows us to better serve our customers.

One of our core values is supporting team member happiness and excellence, and we believe our innovative and egalitarian work environment with team members involved at all levels of our business is a major reason for our success. We believe happy team members create happy customers, happy customers create happy investors, and team members have a voice in shaping the direction of our Company and their future are empowered to make Whole Foods Market not only a great place to shop but also a great place to build a career. All of our full-time and part-time team members are eligible to receive stock options. In addition, team members are encouraged to take an active role in choosing the benefits made available by the Company by participating in a Company-wide benefits vote every three years. The Company's second vote was held in fiscal year 2006 to determine the benefits program that will be in place from 2007 through 2009. Approximately 77% of eligible team members voted in this important process, resulting in a benefits package that reflects the needs and desires of the majority of team members in the Company. One outcome of the vote is that Whole Foods Market provides healthcare at no cost to eligible full-time team members. Eligible full-time team members work 30 or more hours per week and have worked a minimum of 800 service hours. Dependent healthcare premiums are shared based on a team member's tenure with the Company (the team member's share decreases as his/her tenure increases.)

For the past nine years, our team members have helped Whole Foods Market become one of Fortune magazine's "100 Best Companies to Work for in America." In scoring companies, Fortune places the greatest weight (two-thirds of the total) on responses to a random survey of 400 employees, with the remainder being Fortune's evaluation of each company's credibility, respect, fairness and pride/camaraderie. Ranking number 15 in 2006, our highest ever, we are one of only 20 companies in Fortune's "Hall of Fame" which includes only those companies that have made the "100 Best" list all nine years since its inception.

Competition

Food retailing is a large, intensely competitive industry. Our competition varies from region to region and includes but is not limited to local, regional, national and international conventional and specialty supermarkets, smaller specialty stores, and restaurants, each of which competes with us on the basis of product selection, quality, customer service, price or a combination of these factors. We believe our commitment to high quality standards, our focus on customer service, and our competitive prices on comparable products differentiates us in this segmented marketplace.

Natural and organic food is one of the fastest growing segments of food retailing today. Most supermarkets offer at least a limited selection of these products, while some have chosen to expand their selection more aggressively. We believe it works to our benefit for conventional supermarkets to offer natural and organic products for two reasons: first, it helps fulfill our Company mission to improve the health, well-being and healing of both people and the planet, and second, it helps create new customers for us by creating a gateway experience. As more people are exposed to the benefits of natural and organic products, we believe they are more likely to become Whole Foods Market customers since we are the category leader for natural and organic products, offering what we believe is the largest selection and most informed customer service at competitive prices. We believe competition makes us a better retailer. We are constantly evolving, innovating and maturing, and we have a long track record of responding to and improving with competition. We believe we are better positioned from a value and price perspective today than we ever have been. Our buy-side initiatives are continuing to deliver opportunities that will allow us to be more price competitive; we are leveraging our global buying power to the benefit of our customers. On the sell side, our innovation will accelerate over the next few years as we continue to redefine the marketplace and further differentiate our stores, products, and customer experience from the competition.

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We believe our strong comparable store sales growth, which historically has been significantly higher than the industry average, is evidence of this gateway experience and of our ability to evolve faster than our competition.

Government and Public Affairs

Our stores are subject to various federal, state and local laws, regulations and administrative practices affecting our business. We must comply with provisions regulating health and sanitation standards, food labeling, equal employment, minimum wages and licensing for the sale of food and, in some stores, alcoholic beverages.

The manufacturing, processing, formulating, packaging, labeling and advertising of products are subject to regulation by various federal agencies including the Food and Drug Administration ("FDA"), the Federal Trade Commission ("FTC"), the Consumer Product Safety Commission ("CPSC"), the United States Department of Agriculture ("USDA") and the Environmental Protection Agency ("EPA"). The composition and labeling of nutritional supplements are most actively regulated by the FDA under the provisions of the Federal Food, Drug and Cosmetic Act ("FFDC Act"). The FFDC Act has been revised in recent years with respect to dietary supplements by the Nutrition Labeling and Education Act and by the Dietary Supplement Health and Education Act. We believe we are in material compliance with product labeling requirements.

Margaret Wittenberg, our Vice President of Global Communications and Quality Standards, has served on numerous government boards and industry committees to create and strengthen the USDA's Organic Rule and to counsel the USDA and the EPA on pesticide tolerance levels, the use and labeling of GMOs in the food chain, and preserving marine fisheries.

Trademarks

Trademarks owned by the Company or its subsidiaries include, but are not limited to: "365 Everyday Value," "365 Organic Everyday Value," "AFA," "Allegro Coffee Company," "Animal Compassionate," "Bread & Circus," "Fresh & Wild," "Fresh Fields," "Global Local," "Green Mission," "Harry's Farmers Market," "Merchant of Vino," "Mrs. Gooch's," "Vine Buys," "Wellspring," "Whole Baby," "Whole Foods Market," "Whole Foods, Whole People, Whole Planet," and "Whole Kids Organic." The Company or its subsidiaries also holds registrations or applications, and maintains common law trademark rights for stylized logos and brand names for products created by Allegro Coffee Company and many of its private label products.

wholefoodsmarket.com

Our corporate website at www.wholefoodsmarket.com provides detailed information about our Company and history, product offerings and store locations, with hundreds of recipes and a library of information about environmental, legislative, health, food safety and product quality issues. Access to the Company's SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 filings, and all amendments to those reports, is also available through our website free of charge, as soon as reasonably practicable after these reports are filed electronically with the SEC. As with our stores, the focus of our website is customer service. We believe our website provides us with an opportunity to further our relationships with customers, suppliers and investors, to educate them on a variety of issues, and to improve our service levels.

We have included our website address only as an inactive textual reference. The information contained on our website is not incorporated by reference into this Report on Form 10-K.

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Executive Officers of the Registrant

The following table sets forth the name, age, tenure with the Company in years, and position of each of the persons who was serving as an executive officer of the Company as of November 19, 2006:

<u>Name</u>	<u>Age</u>	<u>Tenure</u>	<u>Position</u>
John P. Mackey	53	28	Chairman of the Board and Chief Executive Officer
A.C. Gallo	53	13	Co-President and Chief Operating Officer
Walter Robb	53	15	Co-President and Chief Operating Officer
Glenda Chamberlain	53	18	Executive Vice President and Chief Financial Officer
James P. Sud	54	9	Executive Vice President of Growth and Business Development
Lee Valkenaar	50	19	Executive Vice President of Global Support

John P. Mackey, co-founder of the Company, has served as Chairman of the Board and Chief Executive Officer since 1980. Mr. Mackey also served as President of the Company from July 2001 through September 2004.

A.C. Gallo has served as Co-President of the Company since September 2004 and as Chief Operating Officer since December 2003. Mr. Gallo has held various positions with the Company and with Bread & Circus, Inc., which was acquired by the Company in October 1992, including Vice President and President of the North Atlantic Region, and Executive Vice President of Operations.

Walter Robb has served as Co-President of the Company since September 2004 and as Chief Operating Officer since December 2003. Since joining the Company in 1991, Mr. Robb has also served as Store Team Leader, President of the Northern Pacific Region, and Executive Vice President of Operations.

Glenda Chamberlain has served as Executive Vice President and Chief Financial Officer of the Company since December 1988.

James P. Sud has served as Executive Vice President of Growth and Business Development since February 2001. Mr. Sud joined the Company in May 1997 and served as Vice President and Chief Operating Officer until February 2001. Mr. Sud served as a director of the Company from 1980 to 1997.

Lee Valkenaar has served as Executive Vice President of Global Support since September 2004. Mr. Valkenaar has held various positions with the Company since 1987, including Store Team Leader, Vice President and President of the Southwest Region, and President of the Mid-Atlantic Region.

Regional Presidents

The following table sets forth the name, age, tenure with the Company in years, and position of each of the persons who was serving as a regional president of the Company as of November 19, 2006:

<u>Name</u>	<u>Age</u>	<u>Tenure</u>	<u>Position</u>
Scott Allshouse	44	6	President, South Region
Michael Besancon	60	12	President, Southern Pacific Region
Patrick Bradley	46	20	President, Midwest Region
Mark Dixon	44	23	President, Southwest Region
Anthony Gilmore	46	10	President, Northern California Region
David Lannon	40	13	President, North Atlantic Region
Ron Megahan	36	17	President, Pacific Northwest Region
Kenneth Meyer	38	11	President, Mid-Atlantic Region
Christina Minardi	40	11	President, Northeast Region
Juan Nunez	48	24	President, Florida Region
William Paradise	46	16	President, Rocky Mountain Region

Scott Allshouse has served as President of the South Region since November 2004. Mr. Allshouse has held various positions since joining the Company in 2000, including Store Team Leader and Vice President of the South Region.

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Michael Besancon has served as President of the Southern Pacific Region since February 2001. Mr. Besancon has held various positions with the Company since 1994, including Purchasing Director, Vice President of the Southern Pacific Region and President of the Mid-Atlantic Region.

Patrick Bradley has served as President of the Midwest Region since November 2004. Mr. Bradley has held various positions with the Company and with Mrs. Gooch's Natural Food Markets, Inc., which was acquired by the Company in September 1993, including Store Team Leader and Vice President of the Southern Pacific Region.

Mark Dixon has served as President of the Southwest Region since October 2004. Mr. Dixon has held various positions with the Company since 1984, including Store Team Leader and Vice President of the Southwest Region.

Anthony Gilmore has served as President of the Northern California region since September 2004. Mr. Gilmore has held various positions with the Company since 1996, including Store Team Leader, Vice President and President of the Southwest Region, and President of the Midwest Region.

David Lannon has served as President of the North Atlantic Region since March 2001. Mr. Lannon has held various positions with the Company and with Bread & Circus, Inc., which was acquired by the Company in October 1992, including Store Team Leader, Director of Store Operations and Vice President of the North Atlantic Region.

Ron Megahan has served as President of the Pacific Northwest Region since September 2004. Mr. Megahan has held various positions with the Company since 1989, including Store Team Leader and President of the Northern Pacific Region.

Kenneth Meyer has served as President of the Mid-Atlantic Region since October 2004. Mr. Meyer has held various positions with the Company and with Fresh Fields Market, which was acquired by the Company in August 1996, including Store Team Leader, Vice President of the Southwest Region, and President of the South Region.

Christina Minardi has served as President of the Northeast Region since September 2005. Ms. Minardi has held various positions with the Company and with Fresh Fields Market, which was acquired by the Company in August 1996, including Store Team Leader and Vice President of the North Atlantic Region.

Juan Nunez has served as President of the Florida Region since September 1998. Mr. Nunez has held various positions with the Company and with Mrs. Gooch's Natural Food Markets, Inc., which was acquired by the Company in September 1993, including Store Team Leader, Director of Store Operations and Vice President of the Southwest Region.

William Paradise has served as President of the Rocky Mountain Region since September 2004. Mr. Paradise has held various positions with the Company since 1990, including Store Team Leader, Vice President of the Northern Pacific Region, and Vice President and President of the Southwest Region.

Item 1A. Risk Factors.

We wish to caution you that there are risks and uncertainties that could cause our actual results to be materially different from those indicated by forward-looking statements that we make from time to time in filings with the Securities and Exchange Commission, news releases, reports, proxy statements, registration statements and other written communications, as well as oral forward-looking statements made from time to time by representatives of the Company. These risks and uncertainties include, but are not limited to, the risks described below. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. The cautionary statements below discuss important factors that could cause our business, financial condition, operating results and cash flows to be materially adversely affected. The Company does not undertake any obligation to update forward-looking statements.

Our Growth Is Partially Dependent on New Store Openings and Acquisitions

Our strategy is to expand through a combination of new store openings and, to a lesser extent, acquisitions of existing stores. Successful implementation of this strategy is contingent on numerous conditions, some of which are described below, and there can be no assurance that our expansion strategy can be successfully executed.

Our continued growth depends to a significant degree on our ability to open or acquire new stores in existing and new markets and to operate these stores successfully. Our expansion strategy is dependent on finding suitable locations, and we face intense competition from other retailers for such sites. We may not be able to timely open new stores or operate them

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successfully. In addition, we may not be able to successfully hire and train new team members or integrate those team members into the programs and policies of the Company. We may not be able to adapt our distribution, management information and other operating systems to adequately supply products to new stores at competitive prices so that we can operate the stores in a successful and profitable manner.

There can be no assurance that we will continue to grow through acquisitions. For the acquisitions that we do make, we may not be able to successfully integrate those businesses into our operations and support systems, or the operations of acquired businesses may be adversely affected by the introduction of our decentralized operational approach. The integration of acquired operations into our operations requires the dedication of management resources that may temporarily detract attention from our day-to-day business.

We May Experience Significant Fluctuations in Our Comparable Store Sales

Our comparable store sales in the future could fluctuate or be lower than our historical average for many reasons including new and acquired stores entering into the comparable store base, the opening of new stores that cannibalize store sales in existing markets, increased competition, price changes in response to competitive factors, possible supply shortages, and cycling against above-average sales results in the prior year. Results of operations may be materially impacted by fluctuations in our comparable store sales as the result of lower sales, lower gross profits and/or greater operating costs such as marketing.

We May Experience Significant Fluctuations in Our Quarterly Operating Results

Our quarterly operating results could fluctuate for many reasons, including losses from new stores, variations in the mix of product sales, price changes in response to competitive factors, increases in store operating costs, possible supply shortages, extreme weather-related disruptions, including hurricanes and earthquakes, and potential uninsured casualty losses or other losses. In addition, our quarterly operating results may fluctuate significantly as the result of the timing of new store openings and pre-opening costs, the timing of acquisitions, the range of operating results generated from newly opened stores and changes in estimates associated with the disposal of discontinued operations. Quarter-to-quarter comparisons of results of operations have been and may be materially impacted by the timing of new store openings.

Increased Competition May Have an Adverse Effect on Profitability

Our competitors currently include other natural foods supermarkets, conventional and specialty supermarkets, other natural foods stores, membership warehouse stores, small specialty stores and restaurants. These businesses compete with us in one or more product categories. In addition, some traditional and specialty supermarkets are expanding more aggressively in marketing a range of natural foods, thereby competing directly with us for products, customers and locations. Some of these potential competitors may have been in business longer or may have greater financial or marketing resources than we do and may be able to devote greater resources to sourcing, promoting and selling their products. Increased competition may have an adverse effect on profitability as the result of lower sales, lower gross profits and/or greater operating costs such as marketing.

Our Business May be Sensitive to Economic Conditions that Impact Consumer Spending

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, interest rates, tax rates fuel and energy costs, the impact of natural disasters or acts of terrorism, and other matters could reduce consumer spending or cause consumers to shift their spending to our competitors. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending to our competitors could adversely affect our growth and profitability.

Legal Proceedings Could Materially Impact Our Results

From time to time, we are party to legal proceedings including matters involving personnel and employment issues, personal injury, intellectual property and other proceedings arising in the ordinary course of business. Our results could be materially impacted by the decisions and expenses related to pending or future proceedings.

We May Be Subject to Product Liability Claims if People Are Harmed By the Products We Sell

There is increasing governmental scrutiny of and public awareness regarding food safety. We believe that many customers choose to shop our stores because of their interest in health, nutrition and food safety. We believe that our customers hold us to a higher food safety standard than conventional supermarkets. The real or perceived sale of contaminated food products by us could result in product liability claims, the settlement or outcome of which might have a material adverse effect on our sales and operations.

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The Loss of Key Management Could Negatively Affect Our Business

We are dependent upon a number of key management and other team members. If we were to lose the services of a significant number of key team members within a short period of time, this could have a material adverse effect on our operations. We do not maintain key person insurance on any team member. Our continued success is also dependent upon our ability to attract and retain qualified team members to meet our future growth needs. We face intense competition for qualified team members, many of whom are subject to offers from competing employers. We may not be able to attract and retain necessary team members to operate our business.

Unions May Attempt to Organize Our Team Members

Unions have from time to time attempted to organize all or part of our team member base at certain stores and non-retail facilities. Responding to such organization attempts is distracting to management and team members and may have a negative financial impact on a store, facility or the Company as a whole.

Unfavorable Changes in Government Regulation Could Harm Our Business

Our stores are subject to various federal, state and local laws, regulations and administrative practices affecting our business, and we must comply with provisions regulating health and sanitation standards, food labeling, equal employment, minimum wages and licensing for the sale of food and, in some stores, alcoholic beverages. Our new store openings could be delayed or prevented or our existing stores could be impacted by difficulties or failures in our ability to obtain or maintain required approvals or licenses.

The manufacturing, processing, formulating, packaging, labeling and advertising of products are subject to regulation by various federal agencies including the FDA, FTC, CPSC, USDA and EPA. The composition and labeling of nutritional supplements are most actively regulated by the FDA under the provisions of the FFDC Act. The FFDC Act has been revised in recent years with respect to dietary supplements by the Nutrition Labeling and Education Act and by the Dietary Supplement Health and Education Act.

The USDA's Organic Rule, implemented into federal law on October 21, 2002, facilitates interstate commerce and the marketing of organically produced food and provides assurance to our customers that such products meet consistent, uniform standards. Compliance with this rule could pose a significant burden on some of our suppliers, which may cause a disruption in some of our product offerings.

We cannot predict the nature of future laws, regulations, interpretations or applications, or determine what effect either additional government regulations or administrative orders, when and if promulgated, or disparate federal, state and local regulatory schemes would have on our business in the future. They could, however, require the reformulation of certain products to meet new standards, the recall or discontinuance of certain products not able to be reformulated, additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling and/or scientific substantiation. Any or all of such requirements could have an adverse effect on our results of operations and financial condition.

A Widespread Health Epidemic Could Materially Impact Our Business

The Company's business could be severely impacted by a widespread regional, national or global health epidemic. Our stores are a place where customers come together, interact and learn while at the same time discovering the many joys of eating and sharing food. A widespread health epidemic may cause customers to avoid public gathering places or otherwise change their shopping behaviors. Additionally, a widespread health epidemic could also adversely impact our business by disrupting production and delivery of products to our stores and by impacting our ability to appropriately staff our stores.

Changes in the Availability of Quality Natural and Organic Products Could Impact Our Business

There is no assurance that quality natural and organic products will be available to meet our future needs. If conventional supermarkets increase their natural and organic product offerings or if new laws require the reformulation of certain products to meet tougher standards, the supply of these products may be constrained. Any significant disruption in the supply of quality natural and organic products could have a material impact on our overall sales and cost of goods.

Perishable Foods Product Losses Could Materially Impact Our Results

We believe our stores more heavily emphasize perishable products than conventional supermarket stores. Perishable products accounted for approximately 67% of our total retail sales in fiscal year 2006. The Company's emphasis on perishable products may result in significant product inventory losses in the event of extended power outages, natural disasters or other catastrophic occurrences.

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Our Stock Price Is Volatile

The market price of our common stock could be subject to significant fluctuation in response to various market factors and events. These market factors and events include variations in our sales and earnings results, changes in earnings estimates by securities analysts, publicity regarding us, our competitors, the natural products industry generally, new statutes or regulations or changes in the interpretation of existing statutes or regulations affecting the natural products industry specifically, sales of substantial amounts of common stock in the public market or the perception that such sales could occur and other factors. In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of particular companies. These market fluctuations also may adversely affect the market price of our common stock.

Changes in the Number of Stock Option Exercises Could Impact Our Cash Flow

Our cash flow from the exercise of team member stock options may be adversely affected in the future by fluctuations in the market price of our common stock, changes in income tax law, and changes in the number of stock options we grant.

Capital Needed for Expansion May Not Be Available

The opening or acquisition of new stores and the development of new production and distribution facilities require significant amounts of capital. In the past, our growth has been funded primarily through proceeds from public offerings, bank debt, private placements of debt, internally generated cash flow, and proceeds from stock option exercises. These and other sources of capital may not be available to us in the future. In addition, restrictive covenants that may be imposed by our lenders may restrict our ability to fund our growth.

We May Not Be Able to Adequately Protect Our Intellectual Property Rights

We rely on a combination of trademark, trade secret and copyright law and internal procedures and nondisclosure agreements to protect our intellectual property. There can be no assurance that our intellectual property rights can be successfully asserted in the future or will not be invalidated, circumvented or challenged. In addition, the laws of certain foreign countries in which our products may be produced or sold do not protect our intellectual property rights to the same extent as the laws of the United States. Failure to protect our proprietary information could have a material adverse effect on our business, results of operations and financial condition.

Self-Insurance Plan Claims Could Materially Impact Our Results

The Company uses a combination of insurance and self-insurance plans to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability insurance, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions. Our results could be materially impacted by claims and other expenses related to such plans if future occurrences and claims differ from these assumptions and historical trends.

Changes in Accounting Standards Could Materially Impact Our Results

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines, and interpretations for many aspects of our business, such as accounting for insurance and self-insurance, inventories, goodwill and intangible assets, leases, income taxes and share-based compensation, are highly complex and involve subjective judgments. Changes in these rules or their interpretation could significantly change or add significant volatility to our reported earnings without a comparable underlying change in cash flow from operations.

Effective Tax Rate Changes and Results of Examinations by Taxing Authorities Could Materially Impact Our Results

Our future effective tax rates could be adversely affected by the earnings mix being lower than historical results in states or countries where we have lower statutory rates and higher than historical results in states or countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or interpretations thereof. In addition, we are subject to periodic audits and examinations by the Internal Revenue Service ("IRS") and other state and local taxing authorities. Our results could be materially impacted by the determinations and expenses related to these and other proceedings by the IRS and other state and local taxing authorities.

The Company May Discontinue Paying Dividends in the Future

The Company's dividend payments at the discretion of the Board of Directors. The continuation of these payments, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depend on many factors, including the results of operations and the financial condition of the Company. There is no guarantee that the Company will pay dividends in the future.

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Failure of our Internal Control Over Financial Reporting Could Materially Impact our Business and Results.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. An internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, internal control over financial reporting may not prevent or detect misstatements. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud, and could expose us to litigation or adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

As of September 24, 2006, we operated 186 stores: 177 stores in 31 U.S. states and the District of Columbia; three stores in Canada; and six stores in the United Kingdom. We own four stores, two distribution facilities and land for two stores in development. We also own a store and a building leased to third parties on leased land, and have ten stores in development on leased land. All other stores, distribution centers, bakeries and administrative facilities are leased, with expiration dates ranging from one to 35 years. We have options to renew most of our leases in five-year increments with renewal periods ranging from five to 50 years. The following table shows the number of our stores by state, the District of Columbia, Canada and the United Kingdom as of September 24, 2006:

<u>Location</u>	<u>Number of Stores</u>	<u>Location</u>	<u>Number of Stores</u>	<u>Location</u>	<u>Number of Stores</u>
Arizona	2	Maine	1	Ohio	1
California	40	Maryland	7	Oregon	1
Colorado	7	Massachusetts	17	Pennsylvania	7
Canada	3	Michigan	4	Rhode Island	2
Connecticut	2	Minnesota	2	South Carolina	2
District of Columbia	3	Missouri	1	Texas	13
Florida	8	Nebraska	1	United Kingdom	6
Georgia	7	Nevada	2	Virginia	7
Illinois	9	New Jersey	8	Washington	3
Kansas	1	New Mexico	2	Wisconsin	2
Kentucky	1	New York	6		
Louisiana	3	North Carolina	5		

Item 3. Legal Proceedings.

From time to time we are a party to legal proceedings including matters involving personnel and employment issues, personal injury, intellectual property and other proceedings arising in the ordinary course of business which have not resulted in any material losses to date. Although not currently anticipated by management, our results could be materially impacted by the decisions and expenses related to pending or future proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Whole Foods Market's common stock is traded on the NASDAQ Global Select Market under the symbol "WFMI."

On December 30, 2005, Standard & Poor's added our stock to the S&P 500 index.

The following sets forth the intra-day quarterly high and low sale prices of the Company's common stock for fiscal years 2006 and 2005:

	High	Low
2006		
September 26, 2005 to January 15, 2006	\$79.90	\$61.30
January 16, 2006 to April 9, 2006	74.77	58.87
April 10, 2006 to July 2, 2006	74.00	59.42
July 3, 2006 to September 24, 2006	65.49	46.91
2005		
September 27, 2004 to January 16, 2005	\$48.74	\$39.52
January 17, 2005 to April 10, 2005	53.39	44.14
April 11, 2005 to July 3, 2005	61.46	48.00
July 4, 2005 to September 25, 2005	69.85	58.50

As of November 19, 2006, there were 1,625 holders of record of Whole Foods Market's common stock, and the closing stock price was \$49.40.

Following is a summary of dividends declared in fiscal years 2006 and 2005 (in thousands, except per share amounts):

Date of Declaration	Dividend per Share	Date of Record	Date of Payment	Total Amount
<i>Fiscal year 2006:</i>				
November 9, 2005	\$ 0.15	January 13, 2006	January 23, 2006	\$ 20,918
November 9, 2005	2.00	January 13, 2006	January 23, 2006	277,904
March 6, 2006	0.15	April 14, 2006	April 24, 2006	21,004
June 13, 2006	0.15	July 14, 2006	July 24, 2006	21,186
<i>Fiscal year 2005:</i>				
November 10, 2004	\$ 0.10	January 7, 2005	January 17, 2005	\$ 12,088
April 5, 2005	0.13	April 15, 2005	April 25, 2005	16,345
June 7, 2005	0.13	July 15, 2005	July 25, 2005	16,834
September 14, 2005	0.13	October 14, 2005	October 24, 2005	17,063

On September 27, 2006, the Company's Board of Directors approved a quarterly dividend of \$0.15 per share that was paid on October 23, 2006 to shareholders of record on October 13, 2006. On November 2, 2006, the Company's Board of Directors approved another 20% increase in the Company's quarterly dividend to \$0.18 per share, payable on January 22, 2007 to shareholders of record on January 12, 2007. The Company will pay future dividends at the discretion of the Board of Directors. The continuation of these payments, the amount of such dividends, and the form in which the dividends are paid (cash or stock) depend on many factors, including the results of operations and the financial condition of the Company. Subject to these qualifications, the Company currently expects to pay dividends on a quarterly basis.

On November 8, 2005, the Company's Board of Directors approved a stock repurchase program of up to \$200 million over the next four years. During the fourth quarter of fiscal year 2006, the Company repurchased approximately 2.0 million shares of Company common stock on the open market through August 10, 2006. The average price per share paid was \$49.85, for a total of approximately \$100 million.

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The following table presents the total number of shares repurchased during the fourth quarter of fiscal year 2006 by fiscal period, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase plan, and the approximate dollar value of shares that may yet be purchased pursuant to the \$200 million share repurchase program as of the end of fiscal 2006 (in thousands, except per share amounts):

<u>Fiscal Period</u>	<u>Total Number Of Shares</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 31, 2006 through August 27, 2006	2,005	\$ 49.85	2,005	\$ 100,036

At September 25, 2005, we had no shares of Company common stock in treasury.

On November 6, 2006, the Company's Board of Directors approved a \$100 million increase in the Company's stock repurchase program, bringing the total remaining authorization to \$200 million over the next three years. The specific timing and repurchase amounts will vary based on market conditions, securities law limitations and other factors and will be made using the Company's available cash resources and line of credit availability. The repurchase program may be suspended or discontinued at any time without prior notice.

On November 9, 2005, the Company's Board of Directors approved a two-for-one stock split, distributed on December 27, 2005 to shareholders of record at the close of business on December 12, 2005. The stock split was effected in the form of a 100% stock dividend. Shareholders received one additional share of Whole Foods Market common stock for each share owned. All shares reserved for issuance pursuant to the Company's stock option and stock purchase plans were automatically increased by the same proportion. In addition, shares subject to outstanding options or other rights to acquire the Company's stock and the exercise price for such shares were adjusted proportionately. All share and per share amounts in the accompanying financial statements have been adjusted to reflect the effect of the stock split. This was the Company's third stock split since going public in January 1992. The Company previously effected two-for-one stock splits in the form of a 100% stock dividend on November 29, 1993 and on June 4, 2001.

The following table summarizes information about our Company's equity compensation plans by type as of September 24, 2006 (in thousands, except per share amounts):

<u>Plan Category</u>	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Options Available for Future Issuance</u>
Approved by security holders	18,275	\$ 48.82	6,532
Not approved by security holders	—	—	—
Total	18,275	\$ 48.82	6,532

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Item 6. Selected Financial Data.

Whole Foods Market, Inc.

Summary Financial Information

(In thousands, except per share amounts and operating data)

The following selected financial data are derived from the Company's consolidated financial statements and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

	Sept. 24, 2006	Sept. 25, 2005	Sept. 26, 2004	Sept. 28, 2003	Sept. 29, 2002
Consolidated Statements of Operations Data (1)					
Sales	\$5,607,376	\$4,701,289	\$3,864,950	\$3,148,593	\$2,690,475
Cost of goods sold and occupancy costs	3,647,734	3,052,184	2,523,816	2,070,334	1,758,281
Gross profit	1,959,642	1,649,105	1,341,134	1,078,259	932,194
Direct store expenses	1,421,968	1,223,473	986,040	794,422	677,404
General and administrative expenses	181,244	158,864	119,800	100,693	95,871
Pre-opening and relocation costs	37,421	37,035	18,648	15,765	17,934
Operating income	319,009	229,733	216,646	167,379	140,985
Other income (expense):					
Interest expense	(32)	(2,223)	(7,249)	(8,114)	(10,384)
Investment and other income	20,736	9,623	6,456	5,593	2,056
Income before income taxes	339,713	237,133	215,853	164,858	132,657
Provision for income taxes	135,885	100,782	86,341	65,943	53,063
Net income	\$ 203,828	\$ 136,351	\$ 129,512	\$ 98,915	\$ 79,594
Basic earnings per share	\$ 1.46	\$ 1.05	\$ 1.06	\$ 0.84	\$ 0.71
Weighted average shares outstanding	139,328	130,090	122,648	118,070	112,770
Diluted earnings per share	\$ 1.41	0.99	\$ 0.99	\$ 0.79	\$ 0.66
Weighted average shares outstanding, diluted basis	145,082	139,950	135,454	130,660	126,680
Dividends declared per share	\$ 2.45	\$ 0.47	\$ 0.30	\$ —	\$ —
Consolidated Balance Sheets Data					
Net working capital	\$ 114,211	\$ 254,146	\$ 151,147	\$ 121,574	\$ (4,157)
Total assets	2,042,996	1,889,296	1,521,006	1,213,568	959,937
Long-term debt (including current maturities)	8,655	18,864	170,743	168,715	167,741
Shareholders' equity	1,404,143	1,365,676	949,638	744,976	562,658
Operating Data					
Number of stores at end of fiscal year	186	175	163	145	135
Average store size (gross square footage)	34,000	33,000	32,000	31,000	31,000
Average weekly sales per store	\$ 593,000	\$ 537,000	\$ 482,000	\$ 424,000	\$ 393,000
Comparable store sales increase (2)	11.0%	12.8%	14.9%	8.6%	10.0%
Identical store sales increase (2)	10.3%	11.5%	14.5%	8.1%	8.7%

(1) All fiscal years presented were 52-week years.

(2) Sales of a store are deemed to be "comparable" commencing in the fifty-third full week after the store was opened or acquired. Identical store sales exclude sales for remodels with expansions of square footage greater than 20% and relocations. Stores closed for eight or more days due to unusual events such as fires, snowstorms or hurricanes are excluded from the comparable and identical store base in the first fiscal week of closure until re-opened for a full fiscal week.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

Whole Foods Market, Inc. owns and operates the largest chain of natural and organic foods supermarkets. Our Company mission is to promote vitality and well-being for all individuals by supplying the highest quality, most wholesome foods available. Through our growth, we have had a large and positive impact on the natural and organic foods movement throughout the United States, helping lead the industry to nationwide acceptance. We opened our first store in Texas in 1980 and, as of September 24, 2006, have expanded our operations both by opening new stores and acquiring existing stores from third parties to 186 stores: 177 stores in 31 U.S. states and the District of Columbia; three stores in Canada; and six stores in the United Kingdom. We operate in one reportable segment, natural and organic foods supermarkets.

Our results of operations have been and may continue to be materially affected by the timing and number of new store openings. New stores generally become profitable during their first year of operation, although some new stores may incur operating losses for the first one to three years of operations. Our results of operations are reported on a 52- or 53-week fiscal year ending on the last Sunday in September. Fiscal years 2006, 2005 and 2004 were 52-week years.

Fiscal Year 2006 Executive Summary

Sales for fiscal year 2006 totaled approximately \$5.6 billion, an increase of approximately 19.3% over the prior year, driven by 14% weighted average square footage growth and comparable store sales growth of 11.0%. Average weekly sales for all stores in fiscal year 2006 totaled approximately \$593,000, an increase of approximately 10.5% over prior year. We had sales per gross square foot of \$899, an increase of approximately 3.5% over the prior year.

Net income for fiscal year 2006 totaled approximately \$203.8 million, an increase of approximately 49.5% over the prior year. Diluted earnings per share for fiscal year 2006 per share totaled \$1.41, increasing approximately 42.4% over the prior year.

Cash flows from operations for fiscal year 2006 totaled approximately \$452.7 million. Our capital expenditures for fiscal year 2006 totaled approximately \$340.2 million, of which approximately \$208.6 million was for new store development. We opened 13 new stores during fiscal year 2006, and we ended the fiscal year with 186 stores.

At the end of fiscal year 2006, we had approximately \$8.6 million in long-term debt, \$62.3 million in cash and cash equivalent balances including restricted cash, and short-term investments in available-for-sale securities totaling approximately \$193.8 million.

The Company's Board of Directors declared three quarterly cash dividends of \$0.15 per share and a special dividend of \$2.00 per share during fiscal year 2006, for a total of approximately \$341.0 million. On September 27, 2006, the Company's Board of Directors approved a quarterly dividend of \$0.15 per share that was paid on October 23, 2006 to shareholders of record on October 13, 2006. On November 2, 2006, the Company's Board of Directors approved a 20% increase in the Company's quarterly dividend to \$0.18 per share payable on January 22, 2007 to shareholders of record on January 12, 2007.

During the fourth quarter of fiscal year 2006, the Company repurchased on the open market approximately 2.0 million shares of Company common stock that were held in treasury at September 24, 2006. The average price per share paid was \$49.85, for a total of approximately \$100 million.

On November 6, 2006, the Company's Board of Directors approved a \$100 million increase in the Company's stock repurchase program, bringing the total remaining authorization to \$200 million over the next three years.

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Results of Operations

The following table sets forth the statements of operations data of Whole Foods Market expressed as a percentage of total sales for the fiscal years indicated:

	2006	2005	2004
Sales	100.0%	100.0%	100.0%
Cost of goods sold and occupancy costs	65.1	64.9	65.3
Gross profit	34.9	35.1	34.7
Direct store expenses	25.4	26.0	25.5
General and administrative expenses	3.2	3.4	3.1
Pre-opening and relocation costs	0.7	0.8	0.5
Operating income	5.7	4.9	5.6
Other income (expense):			
Interest expense	—	—	(0.2)
Investment and other income	0.4	0.2	0.2
Income before income taxes	6.1	5.0	5.6
Provision for income taxes	2.4	2.1	2.2
Net income	3.6%	2.9%	3.4%

Figures may not add due to rounding.

Sales

Sales totaled approximately \$5.61 billion, \$4.70 billion and \$3.86 billion in fiscal years 2006, 2005 and 2004, respectively, representing increases of 19.3%, 21.6% and 22.8% over the previous fiscal years, respectively. Sales for all fiscal years shown reflect increases due to new stores opened and acquired and comparable store sales increases of approximately 11.0%, 12.8% and 14.9% in fiscal years 2006, 2005 and 2004, respectively. Sales of a store are deemed to be comparable commencing in the fifty-third full week after the store was opened or acquired. Identical store sales, which excludes sales for remodels with expansions of square footage greater than 20% and relocations, increased approximately 10.3%, 11.5% and 14.5% in fiscal years 2006, 2005 and 2004, respectively. Sales from relocations and remodels with expansions of square footage greater than 20% are excluded from identical store sales data to reduce the impact of square footage growth on the comparison. Stores closed for eight or more days due to unusual events such as fires, snowstorms or hurricanes are excluded from the comparable and identical store base in the first fiscal week of closure until re-opened for a full fiscal week. Weighted average square footage growth from stores opened and acquired was approximately 14%, 13% and 9% for fiscal years 2006, 2005 and 2004, respectively. Sales for fiscal year 2004 were positively impacted by the United Food and Commercial Workers union strike at conventional grocery store retailers in Southern California during a span of approximately 20 weeks over our first and second quarters. Nineteen of our stores experienced an increase in sales due to the strike, 18 of which were in the comparable store base during those periods. The Company believes its comparable store sales growth and the ability to open successful stores in diverse markets are due to the broad appeal of our stores, natural and organic products entering the mainstream consciousness, improvements in overall store execution and the growing awareness of our brand.

Gross Profit

Gross profit consists of sales less cost of goods sold and occupancy costs plus contribution from non-retail distribution and food preparation operations. Gross profit totaled approximately \$1.96 billion, \$1.65 billion and \$1.34 billion in fiscal years 2006, 2005 and 2004, respectively. Gross profit as a percentage of sales was 34.9%, 35.1% and 34.7% in fiscal years 2006, 2005 and 2004, respectively. Our gross profit may increase or decrease slightly depending on the mix of sales from new stores or the impact of weather or a host of other factors, including inflation. Relative to other stores in a region, gross profit margins tend to be lower for new stores and increase as stores mature, reflecting lower shrink as volumes increase, as well as increasing experience levels and operational efficiencies of the store teams. We continue to find many opportunities to lower our cost of goods sold, and we selectively pass on those savings to our customers through lower prices. While our customers are not primarily focused on price, we are always seeking ways to improve our value image and aim to be competitively priced on a market-by-market basis on commodity-type products and on identical product brands in grocery and Whole Body; however, our perishables may be priced at a premium to reflect the higher quality, broader selection, and better customer service available in our produce, meat, seafood, bakery, specialty and prepared foods departments. One way we have improved our value to customers is through our private label products, which give us an opportunity to lower our prices through our scale and buying practices. We are committing additional resources to our private label team and expect private label to grow to a much higher percentage of our sales over time.